



Austria: The Defense Industry

Market Brief

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Summary

Austria is a small, Alpine country located in Central Europe, bordered by Switzerland, Liechtenstein, and European Union (EU) members Germany, Czech Republic, the Slovak Republic, Hungary, Slovenia, and Italy. Austria has a population of about 8 million and an area of about 32,378 square miles. Its main trading partner is the European Union (EU), of which it has been a member since 1995. In 2007, the EU 27 accounted for 72.3 percent of Austrian exports and almost 74.5 percent of imports. Other important trading partners are the EFTA countries, which accounted for about 5.0 percent of exports and 4.6 percent of imports, and the non-EU members of Central and Eastern Europe (CEE) and the European states of the former Soviet Union, which accounted for some 5.3 percent of exports and 3.1 percent of imports. The most important overseas trading partner is the U.S., which accounted for almost 5.1 percent of Austrian exports and 3.3 percent of imports.

The Austrian defense budget is still only slightly more than 0.78 percent of GDP and is one of the lowest in Europe. Total defense expenditures for 2007, according to preliminary data, were EUR 2.17 billion (approx. US\$3.25 billion) equal to 0.79 percent of GDP and below budgeted figures. The 2007 budget foresees defense expenditures of EUR 2.04 billion (approx. US\$ 3.06 billion), equal to 0.71 percent of latest GDP projections. However, without the one-time effect of the second tranche of the purchase of 18 new interceptors of about EUR 250 million (approx. US\$ 375 million), the defense budget would only be EUR 1.79 billion (approx. US\$ 2.69 billion), a small nominal increase from 2006, and equal to only 0.63 percent of latest GDP projections. In nominal terms, GDP in 2007 will grow by 4.8 percent to a total of EUR 285.8 billion (approx. US\$ 428.7 billion.)

Note: All figures are converted at the current exchange rate of EUR 1.00 for US\$ 1.50.

Market Demand

Domestic Defense Industry

The Austrian defense industry is very small. There are no official sales figures published, but estimates by local industry experts put total annual expenditures at about EUR 834.5 million in 2007 and EUR 794.8 in 2006. Total expenditures are expected to be EUR 893 million in 2008. Domestic production has risen from EUR 645.5 million in 2006 to EUR 677.8 million in 2007 in some defense-oriented sectors. Domestic production for 2008 is expected to increase by 7 percent to EUR 725.0 million.

Local industry experts believe that the industry is suffering from two major problems. First, the government has a strict policy of prohibiting the export of lethal and non-lethal defense-oriented goods to countries deemed to have committed human rights violations, or where conflicts take place or threaten to take place (the Kriegsmaterialgesetz). Under this law, the government requires that Austrian defense firms apply for export permission on a case-by-case basis. As a result, it is difficult to conclude a sale, as there is always the risk that a particular order, after months in limbo, will be denied. This law and its implementation virtually rule out profitable overseas sales for Austrian firms. The second problem is the relatively liberal procurement procedures of the Austrian military, which do not explicitly favor Austrian suppliers.

Major buyers of Austrian defense goods, in addition to the Austrian military, are other European military and law enforcement authorities, especially in Spain and in Scandinavian countries. Some sales have also been made in the Asian region. Offsets are an important element of Austrian defense sales.

Areas of domestic production strength are armored vehicles, optical instruments, mines, mine detectors, and firearms. The defense industry is represented by an official industry and trade organization at the Federal Economic Chamber, which also produces periodic publications highlighting Austrian defense production.

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Traditional non-Austrian suppliers of defense equipment to the Austrian armed forces include the following U.S. firms: United Defense (York, PA); Bell Helicopter (Forth Worth, Texas); General Dynamics Land Division (Detroit, MI); and Sikorsky, United Technologies (Stratford, CT).

Competitive Situation

Defense Opportunities

The Austrian military's current program of transformation is resulting in the upgrading or replacement of much of its outdated equipment, including the recent procurements of battle tanks, howitzers, helicopters, and fighter aircraft. Nonetheless, current funding is not sufficient to replace everything that needs to be replaced, a situation that is not likely to change in the next several years, adding up to an inauspicious climate for defense expenditures. The procurement of 15 Eurofighter aircraft from EADS in 2007 has particularly sapped the Ministry of Defense's budget. However, potential opportunities for upgrading or replacement of equipment, spare parts purchase, maintenance, logistics, and service include the following areas:

Helicopters:

After the avalanche disaster in Tyrol several years ago, the Austrian government purchased nine helicopters from the U.S. firm Sikorsky. It will most likely purchase additional training, maintenance services, logistics, and spare parts as time goes on. It also continues to update its helicopter crews with the most modern US-made night vision devices. The Austrian Ministry of Defense (MoD) will also need to decide in the near future to either upgrade its fleet of AB 212 helicopters or procure additional Blackhawks.

However, based on the potential additional costs associated with the procurement of 15 Eurofighter aircraft, there will be too little money left to move forward with the purchase of three additional Black Hawk helicopters. Because Sikorsky will close its "L" model production line to FMS customers in 2009, the Ministry of Defense will be forced to buy either refurbished "L" model aircraft or the upgraded "M" model which will require a significant increase in long-term logistical support. The MoD also intends to outfit its UH60 fleet with Aircraft Survivability Equipment (ASE), making it more capable of deploying its Blackhawks to international operations.

Fighter Aircraft:

The Austrian military has begun to take delivery of its agreed-upon 15 Eurofighter aircraft to replace its aging Swedish Drakens and leased Swiss F5s. As of 7 January 2008, five aircraft have been delivered from the European aerospace firm EADS. In order to enhance secure interoperability and create a common operational

picture with US and NATO partners, the Ministry of Defense has engaged in a multi-year project to gain access to U.S. Secure Communications Equipment.

Transport Aircraft:

The Ministry of Defense ordered and is currently flying three used C130Ks manufactured by Lockheed Martin from the British MOD Defense Export Service Organization. All those aircraft were in service by the end of 2003. In addition, the Ministry will probably purchase additional maintenance, logistics, and spare parts and is likely to open a support competition in 2007. The Austrian MoD has employed its C130Ks to shuttle troops and equipment from Austria to Chad in support of its ongoing participation in Chad as part of EUFOR.

Radar Equipment:

In order to provide precision approach radar support to the Eurofighter, the Ministry of Defense requested that a site survey be conducted by the United States Air Force (USAF) of their current Ground Precision Approach Radar 22 system. Initial assessment is that the current system is in good shape and that the USAF will be able to provide a logistical and maintenance support package to keep the current system operational until 2024.

Defense Plan

The Austrian defense plan has changed significantly since the end of the Cold War. The threat of war between Warsaw Pact and NATO countries has given way to the threat of limited conflicts in the region and the potential for spillover of refugees. In response, the earlier strategy of regional defense is being supplanted by one of increased mobility and flexibility.

The end of the Cold War gave gradual rise to a debate within Austria on the utility of the country's policy of neutrality. Neutrality served as the basis of Austrian foreign policy throughout the years of East-West confrontation. However after Austria joined the European Union in the mid-1990s and became an active member of the NATO Partnership for Peace program, policy-makers questioned whether neutrality was even a fact anymore. In the summer of 2007, Austrian lawmakers debated briefly but publicly the idea of removing altogether from its national security doctrine that statement that Austria retains the right at any time to consider NATO membership. In the end, the statement remains in the document, but the debate demonstrated the current government's opposition to any increased cooperation with the Alliance. The current political debate on Austrian security and what form it will eventually take (within the framework of a Western European Union, or NATO, or something else) will continue for the next few years. Austria consistently contributes troops to international peacekeeping and disaster relief activities in other parts of the world, including in early 2008 to EUFOR as part of its humanitarian operation in Chad.

Defense Procurement Process

Austria and the United States have signed a Memorandum of Understanding (MOU) concerning reciprocal defense procurement and armaments cooperation. Under the MOU, each country promises fair and equitable opportunity to the other to bid on tenders for military supplies and R&D projects and equipment with a value of at least \$25,000 or its equivalent. The agreement does not cover construction projects or materials. Tenders are made public in the quasi-official daily newspaper, "Wiener Zeitung", as well as in the Federal Economic Chamber publication "Internationale Wirtschaft".

Included in these announcements are the subject matter of the contract, time limit on the submission of offers, and the addresses from which solicitation documents can be requested. Moreover, all EU tenders are regularly reported by the U.S. Commercial Service's EU office as part of the Trade Opportunities Program under the U.S. Department of Commerce's International Trade Administration.

There are a few practical problems affecting the competitiveness of U.S. firms in Austrian procurement competitions that should be noted. The Austrian government often requests that offset arrangements be provided

by the foreign firm as a part of the acquisition. There is also an unofficial tendency to favor Austrian and other European suppliers. For general information about defense procurement in Austria, the following agency should be contacted:

Austrian Ministry of Defense
Brig. Edwin J. Wall, Head of Purchasing
Franz-Josefs-Kai 7-9
A-1010 Vienna, Austria
Tel: 43-1-52000-30100
Fax: 43-1-5200017028

Market Access

Doing Business in Austria

Austrians are generally well disposed toward Americans. Following a few general rules of Austrian etiquette will help maintain this positive feeling. Appointments should be made either by telephone or in writing well in advance, and prospective buyers or distributors should be given the option of determining the date and place of the meeting. Prompt response to letters and faxes is very important. Some local firms have reported negative experiences in trying to contact U.S. firms, having to go through too many organizational layers and sometimes never getting a response at all. The exporter who can communicate in German will be much rewarded, even though most Austrians speak English.

Austrians tend to place more emphasis on quality than price, especially for larger purchases. The quality of a product should therefore be its main selling point. Austrians are generally looking for long-term business relationships rather than immediate sales and profit. Hard selling is generally counterproductive.

Defense Business

The military procurement process is best approached through the Office of Defense Corporation (ODC) at the American Embassy in Vienna. This office is well informed about ongoing competitions and is in an excellent position to help U.S. firms gain access to the appropriate decision-makers in the Austrian Ministry of Defense.

Trade Barriers

Austria is part of the EU and thus adheres to the EU tariff and quota schedules. Labeling and marking requirements, standards, and licensing requirements must be addressed.

Labeling and Marking Requirements

Efforts are currently underway to harmonize EU labeling and marking requirements, along with quality and safety standards throughout the EU. Ultimately, as the EU standards harmonization process is completed, a CE mark will be required for most U.S.-manufactured imports. Until that time - however, the regulations can be a frustrating mix of national, EU, and international requirements. Products that are inadequately labeled are not turned away at the border. It is the responsibility of the person importing the product to make sure products are certified and marked before they come into circulation.

Standards

The harmonization of standards requirements is being tackled by the EU on a product-by-product basis. In each case, full implementation follows only after a transition period. This mix of national and EU standards

requirements can be frustrating for the U.S. exporter. Those products for which an EU directive has been issued are subject to EU standards requirements, which supersede any national requirements. Manufactured goods falling under an EU directive must be tested and certified, and must carry the CE mark in those countries in which the transition period has expired. Those products for which no directive has been issued continue to be subject to national requirements.

Both EU requirements and standards for an Austrian quality or performance mark will in many cases require that a product be modified. Even if the product does not require modification, it will often require testing and certification before it can be marketed. Naturally, proof of prior certification by other authorities is taken into consideration and in many cases speeds up the certification procedure in Austria.

Import/Export licensing (including transit imports) for military equipment (Kriegsmaterial)

Products which fall under the definition of Kriegsmaterial are listed in the Austrian Federal Law Gazette (Bundesgesetzblatt) 540 of 1977. This list comprises all goods, which are specifically designed for a military purpose, lethal and non-lethal. In order to import or export such materials, a firm or a private person must have two licenses: a license to use or sell the equipment, and a license to import or export the particular shipment, granted on a case-by-case basis. The information that must be supplied for every request includes: a description of the goods, the exact number of units to be imported, where they are from, how they will be transported, and the prospective end use. The granting of import and export licenses is relatively strict. Applications can be requested from the Austrian Ministry of the Interior.

In addition to permission to import or export a particular shipment of military equipment, it is also necessary to have a license for use or sale of such items, called a Gewerberechtliche Bewilligung. This license is granted to companies as well as private persons by the Ministry of Economy. These licenses are relatively difficult to get. In order to find out if a firm has such a license, it is necessary to contact the provincial Chamber of Commerce where the firm is located. There are nine such Chambers in Austria:

Wirtschaftskammer Wien
Stubenring 8-10
A-1010 Vienna, Austria
Tel: 43-1-51450-1221
Fax: 43-1- 51450-1487
e-mail: guenther.schoen@wkw.at
Contact: Dr. Guenther Schoen, Director

Wirtschaftskammer Niederoesterreich
Landsbergerstrasse 1
A-3100 St. Poelten, Austria
Tel: 43-2742-851-12100
Fax: 43-2742-851-12199
e-mail: Franz.Wiedersich@wknoe.at
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e-mail: Christian.Hofer@wkoee.at
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A-5027 Salzburg, Austria
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e-mail: jbachleitner@wks.at
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Meinhardstrasse 14
A-6021 Innsbruck, Austria
Tel: 43-590905-1249
Fax: 43-590905-1431
e-mail: evelyn.geiger@wktirol.at
e-mail: horst.wallner@wktirol.at
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Koerblergasse 111-113
A-8021 Graz, Austria
Tel: 43-316-601-680
Fax: 43-316-601-595
e-mail: Thomas.spann@wkstmk.at
Contact: Mag. Thomas Spann, Director

Wirtschaftskammer Burgenland
Robert- Graf Platz 1
A-7001 Eisenstadt, Austria
Tel: 43-2682-695-4211
Fax: 43-2682-695-4215
e-mail: anton.bubits@wkbgl.at
Contact: Mag. Anton Bubits, Director

Once the license has been granted, it is valid until revoked. To apply, a form can be requested from:

Ministry of Economic Affairs and Labor
Stubenring 1
A-1010 Vienna, Austria
Tel: 43-1-71100-5926
Fax: 43-1-71100-12205
e-mail: manfred.steiner@bmwa.gv.at
Contact: Dr. Manfred Steiner

Export Control

The Kriegsmaterialgesetz (War Material Law)

It is against the law for Austrian firms to export lethal or non-lethal defense-oriented equipment (Kriegsmaterial) to countries in which there is a conflict or in which a conflict threatens to take place, or to countries that are deemed to have violated human rights. This law will be amended in the foreseeable future. Export permission must be requested on a case-by-case basis. There is no comprehensive list of countries to which the export of military equipment is forbidden. In order to avoid the possibility that this regulation might be skirted through re-export from a third country, a responsible official in the country to which weapons are consigned must sign an end-user certificate. More detailed information about export control can be requested from:

Ministry of the Interior
Herrengasse 7
A-1010 Vienna, Austria
Tel: 43-1-53126-3689
Fax: 43-1-53126-3760
e-mail: silvia.kahlig@bmi.gv.at
Contact: Mrs. Silvia Kahlig

Austria is a member of key multilateral non-proliferation arrangements to control the export of nuclear, biological, and chemical goods, items, and technologies, as well as dual-use items, particularly to countries under international sanctions. The transit, export, and re-export of such goods requires specific license from either the Austrian Ministry of Economics and Labor, the Ministry of Interior, or the Ministry of Defense.

Foreign Investment

The government of Austria generally welcomes all foreign direct investment, particularly those investments that create new jobs in high technology, in research and development, or in capital intensive industries, and which improve productivity, replace imports, increase exports, and do not have a negative impact on the environment. Austria's basic policies toward foreign direct investment and investment-related payment transactions are not expected to change in coming years.

Financial preference and tax incentives within EU parameters are offered to firms undertaking projects in economically depressed areas and underdeveloped districts on Austria's eastern borders. Some of these geographic areas are also eligible for subsidies under EU programs. The only instances of local opposition to investment in the manufacturing sector have been because of environmental concerns.

Patents

Austrian patent and intellectual property laws are consistent with international standards. Austria is a member of the WIPO as well as the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention for the Cooperation Treaty, the Geneva Phonograms Convention, and the Brussels Satellite

Convention. While there are no estimates as to the losses to U.S. firms caused by intellectual property infringements in Austria, they are believed to be negligible. Detailed information about Austrian patents can be obtained from:

Oesterreichisches Patentamt
(Austrian Patent Office)
Kohlmarkt 8
A-1010 Vienna, Austria
Tel: 43-1-53424-0
Fax: 43-1-53524-535
Website: www.patentamt.at

Government, Military and Security Forces Procurement

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Austrian Ministry of Defense
Brig. Edwin J. Wall, Head of Purchasing
Franz-Josefs-Kai 7-9
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Resources and Key Contacts

U.S. Commercial Service
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Boltzmanngasse 16
A-1091 Vienna, Austria
Tel: 43-1-31339-2120
Fax: 43-1-3106917
Contacts: Christopher Quinlivan, Commercial Counselor
e-mail: christopher.quinlivan@mail.doc.gov
Ingeborg Doblinger, Commercial Specialist
e-mail: ingeborg.doblinger@mail.doc.gov

Office of Defense Corporation
American Embassy
Boltzmanngasse 16
A-1091 Vienna, Austria
Tel: 43-1-31339-2345
Fax: 43-1-3106918
Contact: LTC Scott Dullea
e-mail: sdullea@san.osd.mil

Austrian Aviation Defense Firms

Walter Schoen Grosshandel
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e-mail: saero@netway.at
Contact: Dr. Walter Schoen
(represents foreign defense firms in Austria)

ACL Wagner GmbH
Heumarkt 11/15
A-1030 Vienna, Austria
Tel: 43-1-7104115
Fax: 43-1-7104115-15
e-mail: office@acl-wagner.com
Contact: Dr. Carl Julius Wagner
(represents foreign defense firms)

Rotay Marketing Consulting
Huschkgasse 11
A-1190 Vienna, Austria
Tel: 43-1-713 26 28
Fax: 43-1-320 30 60
e-mail: info@rotay.at
Contact: Mr. Alexander Rothmund
(represents foreign defense firms)

Ing. Hans Drescher
Doblhofgasse 3/3
A-1010 Vienna, Austria
Tel: 43-1-4024316
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e-mail: cathrin.drescher@aon.at
Contact: Dr. Cathrin Drescher
(represents foreign defense firms)

For More Information

The U.S. Commercial Service in Vienna, Austria, can be contacted via e-mail at: ingeborg.doblinger@mail.doc.gov; Phone: ++43 1 313 39 2120; Fax: ++43 1 310 69 17; or visit our website: <http://www.buyusa.gov/austria/en>

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